

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

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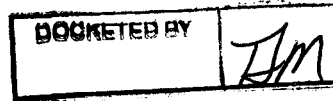
TO: THE COMMISSION

FROM: Utilities Division

APR 15 2013

AZ CORP COMMISSION
DOCKET CONTROL

DATE: April 15, 2013



RE: SOUTHWEST GAS CORPORATION – APPLICATION FOR APPROVAL OF ITS INITIAL CUSTOMER OWNED YARD LINE SURCHARGE RATE AND EXPANSION OF THE CUSTOMER OWNED YARD LINE PROGRAM (DOCKET NO. G-01551A-10-0458)

On February 28, 2013, Southwest Gas Corporation (“Southwest” or “Company”) filed a request for approval of the Company’s initial customer-owned yard line (“COYL”) surcharge as well as approval to expand the COYL program.

Southwest’s filing is pursuant to provisions contained in a settlement agreement approved by the Commission in Decision No. 72723 to establish a COYL program that would survey existing COYLs and replace COYLs that are found to have leaks. A COYL is a line between the meter and the premises where the meter is generally located at the property line or public right-of-way, some distance from the customer premises, and the customer currently owns and is responsible for replacing/repairing the line from the meter to the premises if there are any problems with it. Southwest no longer installs COYLs, but rather locates the meter at the building or structural wall of the customer premises. Customers may not properly maintain their COYLs or even be aware of their responsibility to maintain their COYLs, creating a potential safety hazard due to corrosion and leakage.

Under the COYL program approved in Decision No. 72723, Southwest was given \$1 million annually in base rates to acquire necessary leak detection equipment and conduct a leak detection survey of all the COYLs over a 3 year period. Southwest was also permitted to replace COYLs discovered through the COYL survey or from a leak survey following an odor call complaint and recover capital investment related to the COYL replacement program through a COYL cost recovery mechanism (“CCRM”), as detailed in the Decision. The CCRM surcharge is not permitted to be greater than \$0.01 per therm in any single year and would be reset annually. Southwest’s filing indicates the Company is seeking recovery of approximately \$4.1 million in capital costs through the CCRM, resulting in a surcharge of \$0.00101 per therm. The Company requests an effective date of June 1, 2013 for the proposed CCRM surcharge. Under the Decision, Staff has 45 days from the date of Southwest’s filing to make recommendations to the Commission regarding Southwest’s filing.

Southwest’s filing also includes a request to expand the COYL program to allow Southwest to replace COYLs under the COYL program in cases where Southwest has a major pipeline replacement project in a given area. Southwest indicates it believes that replacing non-

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THE COMMISSION

April 15, 2013


Page 3

Transportation Loading	\$73,227
Tools Loading	\$52,218
Vouchers	\$19,594
Admin Overhead	\$178,836
Construction Overhead	\$49,630
AFUDC	\$13,599
Capitalized Property Tax	\$20,347
Licenses/Permits	\$83,264
Overtime	\$21,995
Miscellaneous Other Costs	\$104,445

Staff has reviewed these costs and held a number of follow-up discussions with Southwest regarding these costs and believes, at this time, that these costs are reasonable to include for recovery through the CCRM surcharge. (Staff is doing further analysis of the costs.) Staff, at this time, would note that Southwest has affirmed to Staff that the Southwest labor and related overhead costs included in this cost recovery request were not included in the Company's currently approved base rates so a double recovery of these costs is not being authorized.

Given the \$4.1 million cost in 2012 and the 1,804 COYLs replaced under the program, including the 37 COYLs that were in the process of being replaced at the time of this application, the total cost per COYL replaced is almost \$2,300 per COYL replaced to date. If all 118,500 COYLs in Arizona were eventually replaced and they continued to cost almost \$2,300 per COYL, that would represent a total potential cost of approximately \$270 million.

In summary, Staff recommends approval of the \$0.00101 per therm CCRM surcharge, effective for 12 months, beginning on June 1, 2013. Staff further recommends that the Commission deny Southwest's request to expand the COYL program at this time for the reasons discussed herein. Staff further recommends that Southwest, within 90 days of the Commission's decision in this proceeding, file a plan in this docket to ensure that all COYLs are inspected under the COYL program.



Steven M. Olea
Director
Utilities Division

SMO:RGG:sms\RRM

ORIGINATOR: Robert Gray

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **BOB STUMP**

Chairman

3 **GARY PIERCE**

Commissioner

4 **BRENDA BURNS**

Commissioner

5 **BOB BURNS**

Commissioner

6 **SUSAN BITTER SMITH**

Commissioner

7
8 **IN THE MATTER OF THE APPLICATION**
9 **OF SOUTHWEST GAS CORPORATION**
10 **FOR APPROVAL OF ITS INITIAL**
11 **CUSTOMER OWNED YARD LINE**
12 **SURCHARGE RATE AND EXPANSION OF**
13 **THE CUSTOMER OWNED YARD LINE**
14 **PROGRAM.**

DOCKET NO. G-01551A-10-0458

DECISION NO. _____

ORDER

14 **Open Meeting**
15 **May 1 and 2, 2013**
16 **Phoenix, Arizona**

16 **BY THE COMMISSION:**

17 **FINDINGS OF FACT**

18 1. Southwest Gas Corporation ("Southwest" or "Company") is engaged in providing
19 natural gas service within portions of Arizona, pursuant to authority granted by the Arizona
20 Corporation Commission.

21 2. On February 28, 2013, Southwest filed a request for approval of the Company's
22 initial customer-owned yard line ("COYL") surcharge as well as approval to expand the COYL
23 program.

24 3. Southwest's filing is pursuant to provisions contained in a settlement agreement
25 approved by the Commission in Decision No. 72723 to establish a COYL program that would
26 survey existing COYLs and replace COYLs that are found to have leaks. A COYL is the line
27 between the meter and the premises where the meter is generally located at the property line or
28 public right-of-way, some distance from the customer premises, and the customer currently owns

1 and is responsible for replacing/repairing the line between the meter and the premises if there are
2 any problems with it. Southwest no longer installs COYLs, but rather locates the meter at the
3 building or structural wall of the customer premises. Customers may not properly maintain their
4 COYLs or even be aware of their responsibility to maintain their COYLs, creating a potential
5 safety hazard due to corrosion and leakage.

6 4. Under the COYL program approved in Decision No. 72723, Southwest was given
7 \$1 million annually in base rates to acquire necessary leak detection equipment and conduct a leak
8 detection survey of all the COYLs over a 3 year period. Southwest was also permitted to replace
9 COYLs discovered through the COYL survey or from a leak survey following an odor call
10 complaint and recover capital investment related to the COYL replacement program through a
11 COYL cost recovery mechanism ("CCRM"), as detailed in the Decision. The CCRM surcharge is
12 not permitted to be greater than \$0.01 per therm in any single year and would be reset annually.

13 5. Southwest's filing indicates the Company is seeking recovery of approximately
14 \$4.1 million in capital costs through the CCRM, resulting in a surcharge of \$0.00101 per therm.
15 The Company requests an effective date of June 1, 2013, for the proposed CCRM surcharge.
16 Under the Decision, Staff has 45 days from the date of Southwest's filing to make
17 recommendations to the Commission regarding Southwest's filing.

18 6. Southwest's filing also includes a request to expand the COYL program to allow
19 Southwest to replace COYLs under the COYL program in cases where Southwest has a major
20 pipeline replacement project in a given area. Southwest indicates it believes that replacing non-
21 leaking COYLs in a given area in coordination with a major pipe replacement in that area would
22 result in time and cost savings. While Southwest's proposal may have merit, it is outside of the
23 scope of the COYL program approved in Decision No. 72723, which only provides for
24 replacement of leaking COYLs through the COYL program at this time.

25 7. Thus, approval of Southwest's proposed expansion would require an amendment to
26 the Decision pursuant to A.R.S. § 40-252. If the Company is granted an A.R.S. § 40-252
27 proceeding, Staff would then evaluate Southwest's request.

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8. Regarding Southwest's efforts under the COYL program in its first year, 2012, it appears Southwest is on schedule to complete the COYL survey in three years as planned, as it attempted to survey roughly one third of COYLs in the first year. During Southwest's recent rate proceeding, the Company estimated there were approximately 102,000 COYLs in its Arizona service territory. Southwest's current filing now indicates this number has increased to an estimated 118,500 COYLs in Southwest's Arizona service territory.

9. In 2012, Southwest inspected or attempted to inspect a total of 52,243 yard lines. Of these, 14,456 were determined by Southwest not be COYLs, and 37,787 were identified as COYLs.

10. Of the 37,787 identified as COYLs in 2012, 25,147 passed the leak survey, 1,913 were identified with leaks, 1,479 refused to have Southwest conduct the leak survey, and Southwest was unable to establish contact with 9,248.

11. Of the 1,913 leaks that were identified, 1,767 had their COYLs replaced, 37 replacements were in progress at the time of Southwest's filing, 40 were undecided as to whether to replace, and 69 declined having their leaking COYL replaced.

12. Southwest has indicated to Staff that in all cases where a leak was detected, Southwest turned off service until such time as the leak was fixed, whether by Southwest replacing the COYL, by the property owner having replacement work done in cases where the property owner refused Southwest's offer to replace the COYL, or by the property owner discontinuing service.

13. Staff is concerned with the high percentage of customers with COYLs who did not have their COYLs inspected either because Southwest was unable to contact them or that the customer refused to allow Southwest to inspect the COYL. Given the safety aspect which helped drive interest in replacing COYLs over time, Staff believes that greater efforts should be made to ensure that all COYLs are inspected. Staff recommends that Southwest, within 90 days of the Commission's decision in this proceeding, file a plan to ensure that all COYLs are inspected under the COYL program.

...

14. Southwest is seeking recovery of \$4,110,341 in gross COYL plant installed in 2012, resulting in the Company proposed surcharge of \$0.00101 per therm, based on the formula established in Decision No. 72723. The approximately \$4.1 million of gross COYL plant installed in 2012 is broken down as shown in the following table:

Cost Description	Costs Incurred in 2012
SW Gas Labor	\$360,345
SW Gas Labor Loadings	\$269,083
Contractors	\$2,588,909
Materials	\$313,422
Transportation Loading	\$73,227
Tools Loading	\$52,218
Vouchers	\$19,594
Admin Overhead	\$178,836
Construction Overhead	\$49,630
AFUDC	\$13,599
Capitalized Property Tax	\$20,347
Licenses/Permits	\$83,264
Overtime	\$21,995
Miscellaneous Other Costs	\$104,445

15. Staff has reviewed these costs and held a number of follow-up discussions with Southwest regarding these costs and believes, at this time, that these costs are reasonable to include for recovery through the CCRM surcharge. (Staff is doing further analysis of the costs.) Staff would note that Southwest has affirmed to Staff that the Southwest labor and related overhead costs included in this cost recovery request were not included in the Company's currently approved base rates so a double recovery of these costs is not being authorized.

16. Given the \$4.1 million cost in 2012 and the 1,804 COYLs replaced under the program, including the 37 COYLs that were in the process of being replaced at the time of this application, the total cost per COYL replaced is almost \$2,300 per COYL replaced to date. If all

1 118,500 COYLs in Arizona were eventually replaced and they continued to cost almost \$2,300 per
2 COYL, that would represent a total potential cost of approximately \$270 million.

3 17. In summary, Staff has recommended approval of the \$0.00101 per therm CCRM
4 surcharge, effective for 12 months, beginning on June 1, 2013.

5 18. Staff has further recommended that Southwest, within 90 days of the Commission's
6 decision in this proceeding, file a plan in this docket to ensure that all COYLs are inspected under
7 the COYL program.

8 CONCLUSIONS OF LAW

9 1. Southwest Gas Corporation is an Arizona public service corporation within the
10 meaning of Article XV, Section 2, of the Arizona Constitution.

11 2. The Commission has jurisdiction over Southwest Gas Corporation and over the
12 subject matter of the application.

13 3. The Commission, having reviewed the filing and Staff's Memorandum dated April
14 15, 2013, concludes that it is in the public interest to approve Southwest Gas Corporation's
15 application for approval of the \$0.00101 per therm CCRM surcharge, as discussed here-in.

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ORDER

IT IS THEREFORE ORDERED that the \$0.00101 per therm CCRM surcharge be and hereby is approved for Southwest Gas Corporation for a twelve month period, beginning on June 1, 2013.

IT IS FURTHER ORDERED that Southwest Gas Corporation, within 90 days of the Commission's decision in this proceeding, file a plan in this docket to ensure that all COYLs are inspected under the COYL program.

IT IS FURTHER ORDERED that this Decision become effective immediately

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:RGG:sms/RMM

Decision No. _____

1 SERVICE LIST FOR: SOUTHWEST GAS CORPORATION
2 DOCKET NO. G-01551A-10-0458

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